

**VIRGINIA MILITARY INSTITUTE
LEXINGTON, VIRGINIA**

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2001**



AUDIT SUMMARY

Our audit of the Virginia Military Institute for the year ended June 30, 2001, found:

- the financial statements are presented fairly, in all material respects;
- no internal control matters that we consider to be material weaknesses;
- no instances of noncompliance required to be reported; and
- adequate corrective action of prior year audit findings.

- TABLE OF CONTENTS -

AUDIT SUMMARY

INDEPENDENT AUDITOR'S REPORTS

Report on Financial Statements

Report on Compliance and on Internal Control over Financial Reporting

FINANCIAL STATEMENTS

Balance Sheet

Statement of Changes in Fund Balances

Statement of Current Funds Revenues, Expenditures and Other Changes

Notes to Financial Statements

SUPPLEMENTARY INFORMATION

Schedule of Auxiliary Enterprises Revenues and Expenditures

INSTITUTE OFFICIALS

January 14, 2002

The Honorable Mark R. Warner
Governor of Virginia

The Honorable Vincent F. Callahan, Jr.,
Chairman, Joint Legislative Audit
and Review Commission

The Board of Visitors
Virginia Military Institute

We have audited the accounts and records of **Virginia Military Institute** as of and for the year ended June 30, 2001, and submit herewith our complete reports on financial statements and compliance and internal control over financial reporting.

INDEPENDENT AUDITOR'S REPORT ON FINANCIAL STATEMENTS

We have audited the balance sheet of Virginia Military Institute, a component unit of the Commonwealth of Virginia, as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the Institute's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Virginia Military Institute as of June 30, 2001, and the changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying "Schedule of Auxiliary Enterprises Revenues, Expenditures, and Changes in Fund Balances" is presented for the purpose of additional analysis and is not a required part of the financial statements. The information in that schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, such information is fairly presented in all material respects in relation to the financial statements taken as a whole.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of Virginia Military Institute as of and for the year ended June 30, 2001, we considered internal controls over financial reporting and tested compliance with certain provisions of laws, regulations, contracts, and grants in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards.

Compliance

As part of obtaining reasonable assurance about whether the Institute's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Institute's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

The Institute has taken adequate corrective action with respect to audit findings reported in the prior year.

The "Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting" is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

EXIT CONFERENCE

We discussed this report with management on January 17, 2002.

AUDITOR OF PUBLIC ACCOUNTS

JEG:whb
whb:68

FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 2001
(With Comparative Figures for 2000)

	A S S E T S	2001	2000
Current Funds:			
Unrestricted:			
Cash and cash equivalents (Note 3)		\$ 5,195,697	\$ 4,104,725
Investments, securities lending (Note 5)		500,841	228,254
Accounts receivable (Net of allowance for doubtful accounts of \$68,757 in 2001 and \$55,122 in 2000)		215,517	306,156
Notes receivable		210,000	210,000
Accrued interest receivable		1,996	11,484
Inventories		2,192,343	1,987,644
Prepaid expenditures		550,290	801,105
Due from other funds		36,176	-
Due from the Commonwealth of Virginia		9,602	15,033
Total unrestricted		8,912,462	7,664,401
Restricted:			
Cash and cash equivalents (Note 3)		1,360,227	673,997
Accounts receivable		5,895	6,601
Accrued interest receivable		22,043	62,958
Notes receivable		-	50,000
Prepaid expenditures		20,200	-
Due from other funds		372	2,070
Total restricted		1,408,737	795,626
Total current funds		\$ 10,321,199	\$ 8,460,027
Loan funds:			
Cash and cash equivalents (Note 3)		\$ 354,238	\$ 110,885
Investments (Note 3)		-	210,941
Loans receivable (Net of allowance for doubtful loans of \$188,683 in 2001 and \$182,271 in 2000)		1,143,275	1,118,518
Accrued interest receivable		249	803
Due from other funds		-	1,250
Total loan funds		\$ 1,497,762	\$ 1,442,397
Endowment funds:			
Cash and cash equivalents (Note3)		\$ 17,931,311	\$ 20,000
Investments (Note 3)		-	21,586,385
Total endowment funds		\$ 17,931,311	\$ 21,606,385

LIABILITIES AND FUND BALANCES		2001	2000
Current Funds:			
Unrestricted:			
Accounts payable and accrued liabilities (Note 6)	\$	3,015,623	\$ 2,916,597
Deferred revenue		792,078	568,219
Compensated absences		1,105,118	1,106,883
Obligations under securities lending transactions (Note 5)		500,841	228,254
Due to other funds		372	8,070
Fund balance		3,498,430	2,836,378
Total unrestricted		8,912,462	7,664,401
Restricted:			
Accounts payable and accrued liabilities		259,305	82,849
Fund balance		1,149,432	712,777
Total restricted		1,408,737	795,626
Total current funds	\$	10,321,199	\$ 8,460,027
Loan funds:			
Fund balances:			
U.S. Government grants refundable	\$	1,192,647	\$ 1,118,179
Institutional funds:			
Restricted		296,312	321,807
Matching		8,803	2,411
Total loan funds	\$	1,497,762	\$ 1,442,397
Endowment funds:			
Fund balances:			
Endowment	\$	4,515,840	\$ 4,447,612
Quasi-endowment - unrestricted		1,673,496	1,877,869
Quasi-endowment - restricted		11,741,975	15,280,904
Total endowment funds	\$	17,931,311	\$ 21,606,385

VIRGINIA MILITARY INSTITUTE
BALANCE SHEET
As of June 30, 2001
(With Comparative Figures for 2000)

	A S S E T S	2001	2000
Plant funds:			
Renewals and replacements:			
Cash and cash equivalents (Note 3)		803,249	(13,515)
Investments with the Treasurer of Virginia (Note 3)		3,735	441,010
Appropriations available		1,560,765	4,804,583
Total renewals and replacements		2,367,749	5,232,078
Retirement of indebtedness:			
Accounts receivable		33,013	14,729
Total retirement of indebtedness		33,013	14,729
Investment in plant:			
Land		1,667,896	1,227,806
Land improvements		2,147,453	2,130,971
Buildings		83,358,654	72,975,832
Equipment		9,077,114	8,470,418
Library books		9,144,705	8,908,285
Construction in progress		799,720	9,328,116
Total investment in plant		106,195,542	103,041,428
Total plant funds		\$ 108,596,304	\$ 108,288,235
Agency funds:			
Cash and cash equivalents (Note 3)		\$ (132,234)	\$ (103,337)
Accounts receivable		238,164	220,193
Due from other funds		-	4,750
Total agency funds		\$ 105,930	\$ 121,606

The accompanying notes to financial statements are an integral part of this statement.

LIABILITIES AND FUND BALANCES		2001	2000
Plant funds:			
Renewals and replacements:			
Accounts payable		500,667	564,652
Notes payable (Note 6)		22,889	457,928
Retainage payable (Note 10)		203,658	237,207
Accrued liabilities		18,125	12,277
Compensated absences		42,348	34,809
Fund balance - restricted		1,580,062	3,925,205
Total renewals and replacements		2,367,749	5,232,078
Retirement of indebtedness:			
Accrued interest		33,013	14,729
Total retirement of indebtedness		33,013	14,729
Investment in plant:			
Bonds payable (Note 6)		409,489	802,175
Notes payable (Note 6)		1,987,111	1,767,072
Installment purchase obligation (Note 6)		60,628	27,669
Capital leases payable (Note 7)		287,344	565,766
Net investment in plant - unrestricted		103,450,970	99,878,746
Total investment in plant		106,195,542	103,041,428
Total plant funds		\$ 108,596,304	\$ 108,288,235
Agency funds:			
Accounts payable and accrued liabilities	\$	17,811	\$ 4,262
Due to other funds		36,176	-
Deposits held in custody for others		51,943	117,344
Total agency funds	\$	105,930	\$ 121,606

VIRGINIA MILITARY INSTITUTE
STATEMENT OF CHANGES IN FUND BALANCES
For the Year Ended June 30, 2001

	Current Funds		Loan	Endowment and
	Unrestricted	Restricted	Funds	Similar Funds
Revenues and other additions:				
Unrestricted current fund revenues	\$ 39,623,193	\$ -	\$ -	\$ -
State appropriations-restricted	-	612,461	-	-
Federal grants and contracts-restricted	-	3,265,610	-	-
State grants and contracts-restricted	-	23,272	-	-
Private gifts, grants, and contracts-restricted	-	6,773,180	-	2
Sales and services of educational departments - restricted	-	19,001	-	-
Investment income-restricted	-	120,478	-	-
Endowment income-restricted	-	398,914	3,502	-
Interest on loans receivable	-	-	23,397	-
U.S. government advances	-	-	38,187	-
Expended for plant facilities (including \$2,371,262 charged to current fund expenditures)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Other sources	-	26,678	12,885	-
Total revenues and other additions	39,623,193	11,239,594	77,971	2
Expenditures and other deductions:				
Educational and general	24,486,410	11,659,493	-	-
Auxiliary enterprises	10,423,897	3,891	-	-
Unique military activities	3,575,683	-	-	-
Indirect cost recovered	-	15,014	-	-
Administrative and collection costs	-	-	808	-
Loan cancellations and write-offs	-	-	6,411	-
Expended for plant facilities (including noncapitalized expenditures of \$1,207,281)	-	-	-	-
Retirement of indebtedness	-	-	-	-
Interest on indebtedness	-	-	-	-
Disposal of plant facilities	-	-	-	-
Unrealized loss on investment	-	-	26,877	2,355,543
Total expenditures and other deductions	38,485,990	11,678,398	34,096	2,355,543
Transfers among funds-additions (deductions):				
Mandatory:				
Debt service	(22,690)	-	-	-
Loan fund matching grant	(12,729)	-	12,729	-
Nonmandatory transfers	(439,732)	875,459	(1,239)	(1,319,533)
Total transfers among funds	(475,151)	875,459	11,490	(1,319,533)
Net increase (decrease) for the year	662,052	436,655	55,365	(3,675,074)
Fund balances at beginning of year	2,836,378	712,777	1,442,397	21,606,385
Fund balances at end of year	\$ 3,498,430	\$1,149,432	\$ 1,497,762	\$ 17,931,311

The accompanying notes to financial statements are an integral part of this statement.

Plant Funds		
Renewals and Replacements	Retirement of Indebtedness	Investment in Plant
\$ -	\$ -	\$ -
202,961	270,548	-
-	-	-
-	-	-
-	716,806	-
-	-	-
11,135	13,371	-
-	-	-
-	-	-
-	-	-
-	-	4,566,134
-	-	904,229
-	-	-
214,096	1,000,725	5,470,363
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
3,402,153	-	-
-	904,229	-
-	161,317	-
-	-	1,898,139
-	-	-
3,402,153	1,065,546	1,898,139
-	22,690	-
-	-	-
842,914	42,131	-
842,914	64,821	-
(2,345,143)	-	3,572,224
3,925,205	-	99,878,746
\$ 1,580,062	\$ -	\$103,450,970

VIRGINIA MILITARY INSTITUTE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES
For the Year Ended June 30, 2001
(With Comparative Figures for 2000)

	2001			2000
	Unrestricted	Restricted	Total	Total
Revenues:				
Student tuition and fees	\$ 10,527,225	\$ -	\$ 10,527,225	\$ 9,804,749
State appropriations: (Note 9)				
Educational and general	10,958,160	612,460	11,570,620	10,797,201
Unique military activities	2,811,553	-	2,811,553	2,811,553
Federal grants and contracts	-	3,249,675	3,249,675	3,166,160
State grants and contracts	-	27,650	27,650	27,630
Private gifts, grants, and contracts	3,300,672	6,512,610	9,813,282	7,946,246
Investment income	138,750	834	139,584	60,182
Endowment income	32,492	1,251,031	1,283,523	609,595
Sales and services of educational departments	19,333	9,124	28,457	38,772
Sales and services of auxiliary enterprises	10,130,740	-	10,130,740	9,755,601
Sales and services of unique military activities	1,058,588	-	1,058,588	990,576
Other sources:				
Concessions, rents and commissions	162,196	-	162,196	219,559
Museum programs sales and services	339,331	-	339,331	342,330
Miscellaneous	144,153	-	144,153	123,962
Total current revenues	39,623,193	11,663,384	51,286,577	46,694,116
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	10,388,421	912,820	11,301,241	10,513,797
Research	15,828	39,680	55,508	98,019
Public service	1,049,678	714,619	1,764,297	1,070,948
Academic support	3,383,201	376,416	3,759,617	3,700,391
Student services	1,827,890	810,991	2,638,881	2,139,554
Institutional support	3,901,615	105,501	4,007,116	3,640,864
Operation and maintenance of plant	3,550,046	90,079	3,640,125	2,738,362
Scholarships, fellowships, and grants	369,731	8,609,387	8,979,118	8,591,684
Educational and general expenditures	24,486,410	11,659,493	36,145,903	32,493,619
Mandatory transfers for:				
Debt service	22,690	-	22,690	22,690
Loan fund matching grant	12,729	-	12,729	14,431
Total educational and general	24,521,829	11,659,493	36,181,322	32,530,740
Auxiliary enterprises:				
Expenditures	10,423,897	3,891	10,427,788	10,088,044
Unique military activities:				
Expenditures	3,575,683	-	3,575,683	3,382,683
Total expenditures and mandatory transfers	38,521,409	11,663,384	50,184,793	46,001,467

	2001			2000
	Unrestricted	Restricted	Total	Total
Other transfers and additions (deductions):				
Nonmandatory transfers	(439,732)	875,459	435,727	1,002,677
Reversion to the Commonwealth	-	-	-	(688,530)
Realized loss on investment	-	-	-	(752)
Excess (deficiency) of restricted receipts over transfers to revenue	-	(438,804)	(438,804)	(313,984)
Net increase in fund balance	\$ 662,052	\$ 436,655	\$ 1,098,707	\$ 692,060

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

VIRGINIA MILITARY INSTITUTE

NOTES TO FINANCIAL STATEMENTS

AS OF JUNE 30, 2001

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Virginia Military Institute have been prepared in accordance with generally accepted accounting principles for colleges and universities. The significant accounting policies followed by the Institute are as follows:

A. Reporting Entity

The mission of Virginia Military Institute is to educate young men and women for a wide variety of careers and to prepare them to serve as officers in the armed forces.

A separate report is prepared for the Commonwealth of Virginia that includes all agencies, boards, commissions, and authorities over which the Commonwealth exercises or has the ability to exercise oversight authority. The Institute is a component unit of the Commonwealth of Virginia and is included in the general purpose financial statements of the Commonwealth.

B. Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting under which revenues are recorded when earned and expenses are recorded at the time liabilities are incurred through the receipt of goods and services.

C. Fund Accounting

To ensure observance of limitations and restrictions placed on the use of resources, the accounts are maintained in accordance with the principles of "fund accounting." Resources are classified for accounting and reporting purposes into funds that may be used for activities or objectives specified. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the Board of Visitors. Externally restricted funds may only be utilized in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds over which the governing board retains full control and use in achieving any of its institutional purposes, subject only to the prescribed policies governing the use of state appropriations.

Unrestricted revenue is accounted for in the Current Unrestricted Fund. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the

appropriate restricted funds. Restricted Current funds are reported as revenues and expenditures when expended for current operating purposes.

A summary of fund group definitions is as follows:

Current Funds - Current fund balances are separated into those, which are restricted by donors and those, which are unrestricted. Restricted funds may only be expended for the purpose indicated by the donor or grantor; whereas, unrestricted funds are available for current operations at the discretion of the Institute.

Loan Funds - Loan funds represent funds, which are limited by the terms of their donors or by action of the Board of Visitors for the purpose of making loans to students.

Endowment and Similar Funds - Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. While quasi-endowment funds have been established by the Board of Visitors for the same purposes as endowment funds, any portion of quasi-endowment funds may be expended.

Plant Funds - Plant funds are divided into three groups: renewals and replacements, retirement of indebtedness, and net investment in plant. Renewals and replacements plant funds represent funds that are specified by external sources or designated by the Board of Visitors for the renovation and replacement of physical properties. The retirement of indebtedness fund includes resources held for the retirement of both principal and interest on debt sinking funds established under bond indentures. Net investment in plant represents the capitalized value of physical property owned by the Institute less any associated long-term debt.

Agency Funds - Agency funds reflect funds held by the Institute as custodian or fiscal agent for others.

D. Investments

Investments are recorded at fair value in accordance with GASB 31 of the Governmental Accounting Standards Board (GASB). Gains and losses arising from the sale, collection, or other disposition of investments and other non-cash assets are accounted for in the fund that owned such assets. Income derived from investments is accounted for in the fund owning such assets, except for income derived from investments of endowment funds, which income is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds.

E. Inventory

Inventories are valued at cost using the first-in, first-out method.

F. Compensated Absences

Non-faculty salaried employees' attendance and leave regulations make provision for the granting of a specified number of days of leave with pay each year. Faculty employees do not earn leave. The amount of leave earned but not taken as of June 30, 2001 and 2000 is recorded on the balance sheet. The liability reflects all earned vacation, compensatory, and overtime leave not taken as well as the amount payable under the Commonwealth of Virginia's sick leave pay-out policy upon termination, which is the lesser of 25 percent of sick leave not taken or \$5,000 per employee with five or more years of service. Also included is an estimation of sick leave for those employees who, while not currently vested, will probably attain the five years of service required to vest. The last element reflected in this liability is Social Security and Medicaid taxes to be paid by the Institute on all accrued compensated absences.

G. Investment in Plant

Buildings and equipment are stated at appraised value or actual cost where determinable. Land is stated at cost. Construction is capitalized as expended and reflected in net investment in plant. Current fund expenditures of \$10,000 or greater for renewals and replacements are capitalized only to the extent that such expenditures represent long-term improvements to properties. Current fund expenditures for equipment are capitalized when the unit acquisition cost is \$5,000 or greater and the estimated useful life is two years or more. Library acquisitions are capitalized using published average prices for library acquisitions. The accompanying financial statements include no provision for depreciation of plant assets.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of movable equipment and library books, (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement, and (3) transfers of a non-mandatory nature for all other cases. Plant assets, at the time of disposal, revert to the Commonwealth of Virginia for disposition. Proceeds, if any, may be returned to the Institute.

H. Deferred Revenue

Deferred revenue represents revenues collected, but not earned, as of June 30, 2001 and 2000. This is primarily composed of revenue for student tuition and fees accrued in advance of the next semester or term.

2. AFFILIATED ORGANIZATION

The financial statements do not include the assets, liabilities, and fund balance of the Virginia Military Institute Research Laboratories, Incorporated (Research Laboratory). The Research Laboratory, a private, non-profit Virginia corporation, was established to encourage and promote scientific investigations and other types of research by the faculty, staff and students. The Research Laboratory was audited by other auditors whose report was furnished to the Institute. Amounts summarized below are based solely upon the report of the other auditor.

Following is a condensed summary of the financial position of the Research Laboratory, as of June 30:

	<u>2001</u>	<u>2000</u>
Assets	<u>\$ 446,962</u>	<u>\$ 306,886</u>
Liabilities and fund balance:		
Liabilities	271,415	138,732
Fund balance	<u>175,547</u>	<u>168,154</u>
Total liabilities and fund balance	<u>\$ 446,962</u>	<u>\$ 306,886</u>

The cash receipts and disbursements of the Research Laboratory were \$686,215 and \$668,218 respectively, for the year ended June 30, 2001, and \$543,303 and \$524,832 respectively, for the year ended June 30, 2000.

3. CASH AND CASH EQUIVALENTS AND INVESTMENTS

All state funds of the Institute are held by the Treasurer of Virginia pursuant to Section 2.1-177, et seq., Code of Virginia, who is responsible for the collection, disbursement, custody, and investment of state funds. Cash and cash equivalents represents cash with the Treasurer, cash in banks, and cash deposits and short-term investments with original maturities of three months or less. Cash deposits held by the Institute are maintained in accounts that are covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.1-359 of the Code of Virginia.

The VMI Investment Committee is responsible for the management of the endowment and similar funds, loan funds of the Institute, and investments of certain other entities associated with the Institute. Effective July 2, 2001, the Institute's endowment and loan funds were pooled for investment purposes with the funds of certain other entities associated with the Institute. This change was made to ensure consistency and diversification in the investments held by the Institute and the other entities and to improve administrative efficiency. To implement this change, the Institute converted its investments to cash equivalents as of June 30, 2001 and subsequently reinvested the cash equivalents in pooled equity and debt securities.

The Institute's investments, including cash equivalents, are categorized to give an indication of the level of credit risk assumed by the Institute. Credit risk is the risk that that the Institute may not be able to obtain possession of its investment or collateral at maturity. Investments, including cash equivalents are categorized as described below to give an indication of the level of credit risk assumed by the Institute at June 30, 2001 and 2000:

- Category 1 – Insured or registered securities or securities held by the Institute or its agent in the Institute's name.
- Category 2 – Uninsured or unregistered, with securities held by the counter party's trust department or agent in the Institute's name.
- Category 3 – Uninsured or unregistered with securities held by the counter party, or by its trust department or agent, but not in the Institute's name.
- Non-categorized – Money market or equity in pooled investments.

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
	<u>Fair Value</u>	<u>Fair Value</u>
Cash and cash equivalents:		
Cash on hand	\$ 8,115	\$ 8,115
Cash in banks	(296,468)	(954,875)
Cash with the Treasurer of Virginia	5,073,644	3,951,431
Cash with Trustees	17,887,781	-
Repurchase agreement (Category 3)	<u>2,839,416</u>	<u>1,788,084</u>
Total cash and cash equivalents	<u>\$ 25,512,488</u>	<u>\$ 4,792,755</u>
Investments:		
Common stock (Category 2)	\$ -	\$ 14,817,179
US Treasury and Agency securities (Category 2)	-	1,756,321
Corporate notes (Category 2)	-	1,623,227
Non-categorized	<u>3,735</u>	<u>4,041,609</u>
Total investments	<u>\$ 3,735</u>	<u>\$ 22,238,336</u>

	<u>June 30, 2001</u>		<u>June 30, 2000</u>	
	<u>Cash and cash Equivalents</u>	<u>Investments</u>	<u>Cash and cash Equivalents</u>	<u>Investments</u>
Current funds:				
Unrestricted	\$ 5,195,697	\$ -	\$ 4,104,725	\$ -
Restricted	1,360,227	-	673,997	-
Loan funds	354,238	-	110,885	210,941
Endowment funds	17,931,311	-	20,000	21,586,385
Plant funds:				
Renewals and replacements	803,249	3,735	(13,515)	441,010
Agency funds	<u>(132,234)</u>	<u>-</u>	<u>(103,337)</u>	<u>-</u>
Total	<u>\$ 25,512,488</u>	<u>\$ 3,735</u>	<u>\$4,792,755</u>	<u>\$ 22,238,336</u>

4. FUNDS HELD IN TRUST BY OTHERS

Assets of funds held by trustees for the benefit of the Institute are not reflected in the accompanying balance sheet. The Institute has irrevocable rights to all or a portion of the income of these funds. However, assets of the funds are not under the management's discretion of the Institute according to the trust agreements. Income from funds held by trustees for the benefit of the Institute totaled \$123,601 and \$78,482 for the years ended June 30, 2001 and 2000, respectively, and is included in restricted endowment income.

5. SECURITIES LENDING TRANSACTIONS

The investments under securities lending represent the Institute's allocated share of securities received for securities lending transactions held in the General Account of the Commonwealth. Information related to the credit risk of these investments and securities lending transactions held in the General Account is available on a statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

6. LONG-TERM INDEBTEDNESS

Bonds Payable

2001

2000

Higher Education Institutional Refunding Bonds, 1992 Series R, issued \$3,119,262, balance payable in annual installments, varying from \$44,957 to \$409,489 with interest at 5 percent to 5.6 percent payable semi-annually, the final installment of \$409,489 due in 2002. The principal and interest is to be repaid by the VMI Development Board and the VMI Foundation on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging an additional comprehensive cadet fee.

\$ 409,489

\$ 802,175

Notes Payable

Loan agreement with the Virginia College Building Authority to finance the installation of a computer network in the barracks that represents the Institute's share of revenue bonds issued by the Authority under its pooled bond program. The note is payable in annual installments, varying from \$205,000 to \$285,000, with final payment on December 1, 2008 with interest payable semi-annually at 3.7 percent to 4.1 percent. The principal and interest will be paid by the VMI Foundation, Inc. on a year-to-year basis as a gift to the Institute. Should the gift be discontinued, repayment will be made by charging cadets a debt service fee.

\$ 2,010,000

\$ 2,225,000

Maturities of long-term debt for each of the five years succeeding June 30, 2001, are as follows:

<u>Year</u>	<u>Bonds Payable</u>	<u>Notes Payable</u>
2002	\$ 409,489	\$ 220,000
2003	-	230,000
2004	-	235,000
2005	-	245,000
2006	-	255,000
Subsequent years	-	825,000
Total	<u>\$ 409,489</u>	<u>\$ 2,010,000</u>

Installment Purchase Obligations

The Institute has future obligations under installment purchase agreements with the final installment due in 2006. The book value of the assets capitalized under these installment purchase agreements is \$112,843 with interest ranging from 5.67 percent to 8.5 percent. A summary of future obligations under these agreements as of June 30, 2001, follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 22,326	\$ 606	\$ 22,932
2003	12,761	81	12,842
2004	10,216	-	10,216
2005	10,216	-	10,216
2006	<u>5,109</u>	<u>-</u>	<u>5,109</u>
Total	<u>\$ 60,628</u>	<u>\$ 687</u>	<u>\$ 61,315</u>

7. CAPITAL LEASES PAYABLE

The Institute is the lessee of equipment under capital leases expiring in various years through 2003. The assets under capital leases are recorded as property, plant, and equipment at the lower of the net present value of the minimum lease payments during the lease term, or the fair market value of the asset.

The Institute receives allocations made by the Virginia College Building Authority from the Higher Education Equipment Trust Fund for the purpose of acquiring equipment under leasing agreements with the Authority. Fixed assets acquired under these lease agreements and the associated liability are recorded in the Net Investment in Plant Fund.

For all capital leases, the minimum lease payments together with the present value of the net minimum lease payments as of June 30, 2001, are as follows:

<u>Year Ending June 30</u>	<u>Equipment Trust Fund</u>	<u>Other Capital Leases</u>	<u>Total</u>
2002	221,209	110	221,319
2003	<u>82,063</u>	<u>-</u>	<u>82,063</u>
Total minimum lease payments	303,272	110	303,382
Less: Executory costs	-	28	28
Interest	<u>16,008</u>	<u>2</u>	<u>16,010</u>
Present value of net minimum lease payments	<u>\$ 287,264</u>	<u>\$ 80</u>	<u>\$ 287,344</u>

Interest rates on capitalized leases vary from 4.6 percent to 5 percent.

8. COMMITMENTS – OPERATING LEASES

The Institute is committed under various operating leases for equipment. Operating leases do not give rise to property rights or lease obligations, and therefore, the results of the lease agreements are not reflected in the Institute's fund groups. In general, the leases are for a three-year term and the Institute has renewal options. In most cases, the Institute expects these leases will be replaced by similar leases in the normal course of business. Rental expense was approximately \$113,079 and \$132,295 for the years ended June 30, 2001 and 2000, respectively. Future minimum lease payments as of June 30, 2001 are as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2002	\$ 52,573
2003	38,174
2004	<u>11,448</u>
Total	<u>\$ 102,195</u>

9. STATE APPROPRIATIONS – CURRENT UNRESTRICTED FUNDS

The Institute receives state appropriations from the General Fund of the Commonwealth. The Appropriation Act specifies that such unexpended appropriations shall revert, as specifically provided by the General Assembly, at the end of the biennium. For years ending at the middle of a biennium, unexpended appropriations that have not been approved for reappropriation in the next year by the Governor become part of the General Fund of the Commonwealth and are, therefore, no longer available to the Institute for disbursements.

The following is a summary of state appropriations received by the Institute during the year ended June 30, 2001, including all supplemental appropriations.

	<u>Educational and General</u>	<u>Unique Military Activities</u>
Original appropriation	<u>\$ 10,869,732</u>	<u>\$ 4,084,353</u>
Adjustments:		
Classified and job class re-grades	91,345	-
Fringe benefit adjustment	7,721	-
Automotive liability premium savings	(5,741)	-
Virginia Power electrical rate savings	(4,002)	-
Appropriation transfers:		
Virginia Tech		(1,272,800)
Other Reductions	<u>(895)</u>	<u>-</u>
Total adjustments	<u>88,428</u>	<u>(1,272,800)</u>
Adjusted appropriations	<u>\$ 10,958,160</u>	<u>\$ 2,811,553</u>

Adjusted appropriations for the year ended June 30, 2000, were \$10,228,083 and \$2,811,553 for Educational and General and Unique Military Activities, respectively.

10. RETAINAGE PAYABLE

The Institute held \$203,658 and \$237,207 at June 30, 2001 and 2000, respectively, as retainage on various contracts for work that had been performed. The retainage will be remitted to the various contractors upon satisfactory completion of the projects.

11. PENSION PLAN AND OTHER POST RETIREMENT BENEFITS

Virginia Retirement System

Employees of the Institute are employees of the Commonwealth of Virginia. The employees participate in a defined benefit retirement plan administered by the Virginia Retirement System (VRS). The VRS also administers life insurance and health related plans for retired employees. Information related to these plans is available at the statewide level only in the Commonwealth's Comprehensive Annual Financial Report (CAFR). The Commonwealth of Virginia, not the Institute, has the overall responsibility for contributions to these plans.

Optional Retirement Plan

Full-time faculty, certain administrative staff, who hold academic rank, and athletic coaches are eligible to participate in a defined contribution plan administered by five different providers rather than VRS. The five different providers are TIAA/CREF Insurance Companies, Fidelity Investments, T. Rowe Price, VALIC, and Met Life. This plan is a fixed contribution plan where the retirement benefits are based upon the employer's (10.4 percent) contributions, plus interest and dividends for the years ended June 30, 2001 and 2000.

Individual contracts issued under the plan provide for full and immediate vesting of both the Institute's and the employees' contributions. Total pension costs under this plan were approximately \$520,876 and \$453,523 for the years ended June 30, 2001 and 2000, respectively. Contributions to the optional retirement plan were calculated using the base salary amount of \$5,008,429 and \$4,360,793 for the years ended June 30, 2001 and 2000, respectively.

12. RISK MANAGEMENT

The Institute is exposed to various risks of loss related to torts; theft or damage to, and destruction of assets; errors and omissions; non-performance of duty; injuries to employees; and natural disasters. The Institute participates in insurance plans maintained by the Commonwealth of Virginia. The state employee health care plan is administered by the Department of Personnel and Training and the risk management insurance plans are administered by the Department of General Services, Division of Risk Management. Risk management insurance includes worker's compensation, property, general liability, faithful performance of duty bond, automobile, and air and watercraft plans. The Institute pays premiums to each of these Departments for its insurance coverage. Information relating to the Commonwealth's insurance plans is available at the statewide level in the Commonwealth of Virginia's Comprehensive Annual Financial Report.

13. CONTINGENCIES

The Institute has received federal grants for specific purposes that are subject to review and audit by the grantor agencies. Claims against these resources are generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal audit may become a liability of the Institute.

In addition, the Institute is required to comply with various federal regulations issued by the Office of Management and Budget. Failure to comply with certain systems requirements of these regulations may result in questions concerning the allowability of related direct and indirect charges pursuant to such agreements. As of June 30, 2001, the Institute estimates that no material liabilities will result from such audits or questions.

14. PENDING GASB STATEMENT

Governmental Accounting Standards Board (GASB) Statement No. 35, "Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities," issued November 1999, will be effective for the Institute for the fiscal year ending June 30, 2002. This Statement imposes new standards for financial reporting. The titles and formats of the financial statements will change significantly as a result of this Statement. In addition, management will be required to provide a management's discussion and analysis that gives readers an analysis of the Institute's overall financial position and results of operations including a comparison of current year results with the prior year. The Institute has completed its assessment of the changes required by this Statement and is preparing for implementation.

SUPPLEMENTARY INFORMATION

VIRGINIA MILITARY INSTITUTE
SCHEDULE OF AUXILIARY ENTERPRISES REVENUES AND EXPENDITURES
For the Year Ended June 30, 2001

	Food Services	Residential Facilities	Laundry	Student Health
Revenues:				
Unrestricted:				
Student fees	\$ 4,062,637	\$ 1,799,167	\$ 264,497	\$ 179,658
Sales and services	127,536	317,197	3,908	-
Interest	-	-	-	-
Private gifts	-	-	-	6,604
Income from securities lending transactions	-	-	-	-
Total unrestricted revenues	4,190,173	2,116,364	268,405	186,262
Restricted:				
Federal funds - College workstudy	-	-	-	410
Total gross revenue	4,190,173	2,116,364	268,405	186,672
Less: Cost of sales	-	-	-	-
Net revenues	4,190,173	2,116,364	268,405	186,672
Expenses of operation:				
Personal services	-	365,528	158,287	122,251
Supplies and materials	22,896	151,714	12,613	8,117
Equipment	2,296	79,994	-	348
Contractual services	2,975,724	409,144	10,161	1,871
Continuous charges	489,800	1,026,292	17,145	10,571
Expenses for securities lending transactions	-	-	-	-
Total expenses of operation	3,490,716	2,032,672	198,206	143,158
Excess (deficiency) of revenues over (under) expenses of operation before transfers	699,457	83,692	70,199	43,514
Transfers:				
Nonmandatory transfers	-	-	-	-
Net increase (decrease) for the year	\$ 699,457	\$ 83,692	\$ 70,199	\$ 43,514
Fund balance at beginning of year				
Fund balance at end of year				

(1) Other column represents amounts not specifically identifiable to a particular auxiliary.

Stores and Shops	Student Union	Parking	Cameron Hall	Athletics	Other (1)	Total
\$ 108,541	\$ 761,631	\$ -	\$ 249,525	\$ 1,449,923	\$ -	\$ 8,875,579
34,471	200	15,185	-	465,152	-	963,649
-	-	-	-	-	163,962	163,962
-	8,231	-	200	101,980	-	117,015
-	-	-	-	-	10,535	10,535
143,012	770,062	15,185	249,725	2,017,055	174,497	10,130,740
-	3,071	-	-	410	-	3,891
143,012	773,133	15,185	249,725	2,017,465	174,497	10,134,631
118,002	-	-	-	-	-	118,002
25,010	773,133	15,185	249,725	2,017,465	174,497	10,016,629
13,177	297,659	-	70,398	1,956,388	-	2,983,688
88	90,868	-	9,106	53,776	-	349,178
112	48,512	-	890	121,896	122	254,170
80,143	189,844	6,113	19,394	665,555	19,328	4,377,277
7,547	256,269	-	98,267	429,542	-	2,335,433
-	-	-	-	-	10,040	10,040
101,067	883,152	6,113	198,055	3,227,157	29,490	10,309,786
(76,057)	(110,019)	9,072	51,670	(1,209,692)	145,007	(293,157)
-	-	-	-	1,613,831	(866,287)	747,544
\$ (76,057)	\$ (110,019)	\$ 9,072	\$ 51,670	\$ 404,139	\$ (721,280)	454,387
						1,783,817
						\$ 2,238,204

VIRGINIA MILITARY INSTITUTE
Lexington, Virginia

BOARD OF VISITORS

Waverley L. Berkley, III, Esq.	G. Gilmer Minor, III
Rhett Clarkson	Bruce C. Morris
Richard Cullen, Esq.	S. Waite Rawls, III
Bruce C. Gottwald	Dr. Sue Ellen Rocovich
Darryl Keith Horne	Dr. Jay R. Sculley
Dennis A. Johnson	Maj. Gen. Claude A. Williams
Robert L. McDowell	Donald M. Wilkinson
T. Carter Melton, Jr.	Samuel B. Witt, III, Esq.

Anne C. Woodfin

ADMINISTRATIVE OFFICERS

Major General Josiah Bunting, III, Superintendent

Brigadier General Robert L. Green, Deputy Superintendent